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DEPARTMENT FOR AF/W

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TAGS: EIND ECON EFIN SL
SUBJECT: SIZE DOESN'T MATTER: SIERRA LEONE INDUSTRIES FACE SAME CHALLENGES

¶1. SUMMARY: On August 8, CDA, Poloff, and Economic Assistant visited a textiles factory and a brewery. Though the companies differ considerably in terms of size, capital investment, and ownership, managers pointed to the same challenges impeding growth and profitability. A subsequent meeting with the Central Bank Governor helped identify several areas in which the government could be more effective in assisting local industry. END SUMMARY.

OVERVIEW: SAYENU AND SLBL

¶2. On August 8, CDA, Poloff, and Economic Assistant visited Sayenu Industries and Sierra Leone Brewing Ltd. (SLBL). Sayenu is the sole textile manufacturer in Sierra Leone, assembling such items as uniforms, bedding, and hospital scrubs using imported cloth. Sayenu can currently employ up to 200 people on a contract-basis for shift work, and has a handful of factory managers on salary. The company is owned and operated by Mariama Sesay and family, who are still struggling to rebuild their operation following the losses incurred during the war.

¶3. Operating since 1961, SLBL makes Star Beer, Guiness, and Maltina, and imports Heineken for the domestic market. In a recent debt-for-equity arrangement, SLBL is now 83% owned by Heineken (they held only 42.49% in FY2007), with Guiness (8-9%) and Paterson Zochonis (3-4%) also owning shares. The remaining shares are locally-held. Currently employing 120 staff and operating round-the-clock, SLBL produces 95,000 hectoliters per year, falling below their full capacity of 120,000 hectoliters. Considerable capital investment in automated systems in recent years plunged the company deeply in debt. The company has posted net losses for the past 3 years, SLBL lost Le 7 billion ($2,376,919) in FY2007 due to debt servicing.

CHALLENGES TO PROFIT AND GROWTH

¶4. Sayenu and SLBL identified Sierra Leone's overall weak economy as a principle challenge. Neither have tapped into export markets, despite past attempts, and struggle to make ends meet during economic downturns. Mrs. Sesay receives contracts from the Government of Sierra Leone (GoSL), schools, and private companies, but does not have enough business to operate year-round. SLBL managers expressed concern regarding the overall lack of discretionary income in the country. Beyond this obvious challenge, Sayenu and SLBL pointed to the lack of financial capital, transportation difficulties, and the expense of raw materials and resources, acquired locally or imported, as threats to the health of their businesses.

FINANCIAL CAPITAL

¶5. The lack of financial capital as a huge impediment to growth for both companies. Human capital is readily available to Sayenu, with at least half of their contract staff having more than 10 years experience, but the company has limited access to needed investment capital to either expand the factory, resume pre-war exports to Liberia and the Gambia, or re-open a factory-run training school destroyed by rebels who occupied the facility. While SLBL has support from its European owners, managers still faced exorbitant interest rates ranging from 25-29% that impeded further modernization and growth. Debt servicing even at a much lower rate (8-9%) from Heineken is an obstacle to SLBL's expansion.

¶6. In a subsequent meeting with Central Bank Governor Samura Kamara on August 8, CDA raised the issue of debilitatingly high interest rates. Kamara noted that the Bank is not active in setting exchange or interest rates. When asked why the interest rates are so high, he pointed to the creditors' captive market in Sierra Leone. With little internal and external competition, banks can afford to keep the rate high. Further, they hold 60% of government debt, giving them "cartel"-like powers. The government's own policy of not insuring deposits but having a high reserve requirement likely also contributes. Interestingly, the Governor cited high operating costs, particularly electricity, as an element that forced banks to set higher interest rates for consumers. He believes that the GoSL focus on providing regular electricity will thus have positive direct and indirect impacts on manufacturers.

RAW MATERIALS

¶7. Sayenu and SLBL are import-dependent for raw materials. Sayenu purchases cloth from China, India, the UK, and the U.S., which can be very expensive depending on exchange rates and other factors. SLBL receives its raw materials from Heineken. Because the size of the shipments sent from Europe are small relative to shipments for other ports, managers stated that stops in Freetown are infrequent. This forces SLBL to purchase large amounts of inputs and stock far in advance, and buying on speculation contributes to the debt SLBL carries. The huge excise duties that must be paid on materials brought through the ports are also a cash-flow hardship. Despite these negatives, for SLBL import-dependency has also sparked innovation. To decrease the need for imported barley, for example, SLBL increased the quantity of locally-grown sorghum in their formulation. This supports Sierra Leone's agricultural sector and decreases SLBL's expenses. Sierra Leonean farmers will produce sufficient sorghum to meet SLBL demand next year.

RESOURCES

¶8. Both Sayenu and SLBL indicated resource deficiency as a strain on their businesses. While Freetown's electricity is provided by the National Power Authority (NPA), outages continue on a regular basis. SLBL, for example, only receives 25% of the electricity it needs from NPA. Running generators, particularly with the high cost of fuel, is extremely expensive. Lack of water in the city is also a significant and expensive problem.

COMMENT

¶9. For an economy already weakened by the war, rocketing commodities prices means continued vulnerability and limited

opportunities for growth. Sayenu and SLBL, despite their differences in size, market-share, and financial backing, share similar frustrations in grappling with Sierra Leone's economic realities. In the face of these challenges, however, managers for both companies displayed enthusiasm and commitment to meeting their long-term objectives of profitability and expansion. Heineken's considerable investment in SLBL is also a sign that investors expect a positive turnaround for Sierra Leone's economy. While the importance of private investment in a country like Sierra Leone cannot be understated, the GoSL has a role to play in supporting local industries. Though the provision of electricity has a beneficial effect within the manufacturing sector, more immediate goals for the government to produce tangible results could include reducing tariffs on raw materials and encouraging banks to made credit more affordable. END COMMENT.
FEDZER